

PERAC AUDIT REPORT



Hull Contributory Retirement System

JAN. 1, 2004 - DEC. 31, 2006

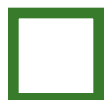


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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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JOSEPH E. CONNARTON, *Executive Director*

May 23, 2008

The Public Employee Retirement Administration Commission has completed an examination of the Hull Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2004 to December 31, 2006. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission, with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners Martin J. Feeney and John Shea who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



EXPLANATION OF FINDINGS AND RECOMMENDATIONS

I. Annual Statement:

Based upon inspection of the Annual Statements filed by the Board it was determined that certain line item amounts contained in the 2005 and 2006 Annual Statements did not match the detailed supporting schedules. The review of the Annual Statements disclosed the following issues:

- Total Interest for the current year on the Supplemental Schedule for the years 2005 and 2006 did not agree with the Investment Income Credited to the members account on the Receipts page of the Annual Statement.
- Total Interest for the current year on the Supplemental Schedule for the years 2005 and 2006 did not agree with the Income Required, Annuity Savings Fund on the Investment Income Schedule of the Annual Statement.
- The 2005 Ending Balance of Income Required, Annuity Savings Fund on the Investment Income Schedule of the 2006 Annual Statement did not agree with the Investment Income credited to members' accounts for 2005 on the Receipts Schedule of the 2006 Annual Statement.
- The December 31, 2005 Balances for the Annuity Savings Fund and Pension Reserve Fund on the Annual Statement for December 31, 2005 did not agree with the December 31, 2005 balances on the December 31, 2006 Annual Statement.
- The Ending Balances on the Membership Schedules of the Annual Statements did not always agree with the Beginning Balances for the subsequent year.

Recommendation: As the primary source of information to third parties, the Annual Statement and supporting schedules must be in agreement, allowing readers to make an accurate assessment of the System's financial condition without having to reference the General Ledger. Prior to the finalization and submittal of Annual Statements, the Retirement Administrator should ensure that all information contained in the various schedules is in agreement with both the Supplemental Schedules and the various Schedules within the Annual Statement.

Board Response:

In the process of completing the 2006 annual statement, it had been determined that there was an error with the software that resulted in certain numbers within the annual statement not being correctly rolled in the prior reporting year. These fields are maintained within the system and are unable to be updated by the user. Both the Chairman and the retirement administrator had spoken with the software vendor to advise them of this issue and to have them make the necessary changes to report the proper and correct amounts. The Board is confident that the annual report that had been submitted to PERAC at the end of 2006 reported all correct numbers, both current year and prior years. Unfortunately, the copy of the report provided for the auditor review was not the final copy. The 2007 report had the same reporting issue, however was reported to and corrected by the vendor, all prior versions marked as draft, and the final report submitted to PERAC. The Board will be upgrading their software prior to the close of 2008 and have been assured by the vendor that this issue will not continue.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

2. Expenses:

During a review of the expenses of the system it was observed that:

- Board Stipends were charged to the Staff Salary, Account #5119 instead of Board Stipends, Account #5118.
- Fiduciary Insurance was charged to Administrative Expense, Account #5589 instead of Fiduciary Insurance, Account #5310.
- Consultant Fees were charged to Administrative Expense, Account #5589 instead of Consultant Fees, Account # 5307.
- Service Contracts were charged to Administrative Expense, Account # 5589 instead of Service Contracts, Account #5311.

Recommendation: The Administrator should more formally document the expense procedures of the retirement system. The Board must comply with PERAC prescribed general ledger account numbers for reporting its activities on a monthly and annual basis. All expenses associated with these separate accounts should be reported in detail on a monthly basis and in summary form on the annual statement as required by PERAC.

Board Response:

Beginning in 2008, the retirement administrator is splitting the board stipend and the staff salary accordingly. The other categories reported from the audit were not applicable to the Hull Contributory Retirement System's expenses at the time. Closer examination of all administrative expense accounts is being done to assure recording.

FINAL DETERMINATION:

PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

AS OF DECEMBER 31,			
	2006	2005	2004
Net Assets Available For Benefits:			
Cash	\$113,935	\$135,186	\$7,400,898
PRIT Cash Fund	50,688	100,573	175,306
PRIT Core Fund	22,670,242	18,955,655	8,838,781
Accounts Receivable	3,077	16,502	86,461
Accounts Payable	(5,040)	(35,080)	(6,111)
Total	<u>\$22,832,902</u>	<u>\$19,172,836</u>	<u>\$16,495,335</u>
Fund Balances:			
Annuity Savings Fund	\$6,644,133	\$6,285,930	\$5,851,774
Annuity Reserve Fund	2,696,812	2,429,324	2,350,503
Pension Fund	921,703	820,365	564,534
Pension Reserve Fund	12,570,254	9,637,216	7,728,524
Total	<u>\$22,832,902</u>	<u>\$19,172,836</u>	<u>\$16,495,335</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2004)	\$5,395,255	\$2,342,323	\$384,875	\$0	\$0	\$6,155,466	\$14,277,919
Receipts	780,060	70,227	2,397,588	0	155,942	1,573,059	4,976,877
Interfund Transfers	(248,809)	248,809	0	0	0	0	0
Disbursements	(74,733)	(310,857)	(2,217,929)	0	(155,942)	0	(2,759,461)
Ending Balance (2004)	5,851,773	2,350,502	564,534	0	(0)	7,728,525	16,495,335
Receipts	855,857	70,583	2,604,554	0	145,379	1,907,691	5,584,064
Interfund Transfers	(278,153)	278,153	0	0	0	0	0
Disbursements	(142,547)	(269,915)	(2,348,724)	0	(145,379)	0	(2,906,565)
Ending Balance (2005)	6,286,930	2,429,323	820,364	0	(0)	9,636,216	19,172,834
Receipts	1,035,885	77,182	2,684,998	0	200,083	2,934,038	6,932,186
Interfund Transfers	(540,449)	540,449	0	0	0	0	0
Disbursements	(138,233)	(350,145)	(2,583,660)	0	(200,083)	0	(3,272,121)
Ending Balance (2006)	<u>\$6,644,134</u>	<u>\$2,696,809</u>	<u>\$921,703</u>	<u>\$0</u>	<u>\$0</u>	<u>\$12,570,254</u>	<u>\$22,832,900</u>

STATEMENT OF RECEIPTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2006	2005	2004
Annuity Savings Fund:			
Members Deductions	\$765,103	\$715,226	\$657,865
Transfers from Other Systems	168,431	70,509	79,132
Member Make Up Payments and Re-deposits	66,900	36,029	11,512
Investment Income Credited to Member Accounts	35,451	34,092	31,552
Sub Total	<u>1,035,885</u>	<u>855,856</u>	<u>780,061</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	77,182	70,583	70,227
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	38,147	30,728	33,327
	101,798	106,262	133,111
Pension Fund Appropriation	2,545,053	2,467,564	2,231,151
Sub Total	<u>2,684,998</u>	<u>2,604,554</u>	<u>2,397,589</u>
Military Service Fund:			
Investment Income Credited to the Military Service Fund	0	0	0
Sub Total	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Investment Income Credited to the Expense Fund	200,083	145,379	155,942
Sub Total	<u>200,083</u>	<u>145,379</u>	<u>155,942</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	11,643	0	4,000
Interest Not Refunded	355	638	812
Excess Investment Income	2,922,040	1,906,754	1,569,012
Sub Total	<u>2,934,038</u>	<u>1,907,692</u>	<u>1,573,059</u>
Total Receipts	<u><u>\$6,932,186</u></u>	<u><u>\$5,584,064</u></u>	<u><u>\$4,976,878</u></u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2006	2005	2004
Annuity Savings Fund:			
Refunds to Members	\$35,703	\$42,845	\$50,235
Transfers to Other Systems	<u>102,530</u>	<u>99,702</u>	<u>24,498</u>
Sub Total	<u>138,233</u>	<u>142,547</u>	<u>74,733</u>
Annuity Reserve Fund:			
Annuities Paid	311,167	269,915	260,340
Option B Refunds	<u>38,978</u>	<u>0</u>	<u>50,517</u>
Sub Total	<u>350,145</u>	<u>269,915</u>	<u>310,857</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	1,502,367	1,320,002	1,240,203
Survivorship Payments	40,957	39,011	50,475
Ordinary Disability Payments	55,895	9,450	9,552
Accidental Disability Payments	719,068	652,777	624,280
Accidental Death Payments	71,701	70,621	75,275
Section 101 Benefits	7,272	7,060	6,854
3 (8) (c) Reimbursements to Other Systems	88,769	148,595	102,252
State Reimbursable COLA's Paid	<u>97,631</u>	<u>101,208</u>	<u>109,038</u>
Sub Total	<u>2,583,660</u>	<u>2,348,724</u>	<u>2,217,929</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Board Member Stipend	1,500	0	0
Salaries	42,681	35,066	44,326
Legal Expenses	20,836	4,756	9,008
Travel Expenses	1,146	1,173	1,695
Administrative Expenses	2,339	4,214	3,172
Furniture and Equipment	1,160	2,597	1,373
Management Fees	117,510	92,613	75,326
Consultant Fees	8,000	488	13,612
Service Contracts	4,841	4,402	7,360
Fiduciary Insurance	<u>70</u>	<u>70</u>	<u>70</u>
Sub Total	<u>200,083</u>	<u>145,379</u>	<u>155,942</u>
Total Disbursements	<u><u>\$3,272,121</u></u>	<u><u>\$2,906,565</u></u>	<u><u>\$2,759,461</u></u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2006	2005	2004
Investment Income Received From:			
Cash	\$2,545	\$2,002	\$1,558
Pooled or Mutual Funds	688,650	566,820	375,926
Commission Recapture	0	0	0
Total Investment Income	<u>691,195</u>	<u>568,822</u>	<u>377,484</u>
Plus:			
Realized Gains	1,382,424	1,057,414	817,123
Unrealized Gains	1,902,366	1,758,068	1,589,224
Interest Due and Accrued - Current Year	0	0	0
Sub Total	<u>3,284,790</u>	<u>2,815,482</u>	<u>2,406,347</u>
Less:			
Realized Loss	0	0	(18,708)
Unrealized Loss	(741,229)	(1,227,496)	(938,390)
Interest Due and Accrued - Prior Year	0	0	0
Sub Total	<u>(741,229)</u>	<u>(1,227,496)</u>	<u>(957,098)</u>
Net Investment Income	<u>3,234,756</u>	<u>2,156,808</u>	<u>1,826,733</u>
Income Required:			
Annuity Savings Fund	35,451	34,092	31,552
Annuity Reserve Fund	77,182	70,583	70,227
Expense Fund	200,083	145,379	155,942
Total Income Required	<u>312,716</u>	<u>250,054</u>	<u>257,721</u>
Net Investment Income	<u>3,234,756</u>	<u>2,156,808</u>	<u>1,826,733</u>
Less: Total Income Required	<u>312,716</u>	<u>250,054</u>	<u>257,721</u>
Excess Income To The Pension Reserve Fund	<u>\$2,922,040</u>	<u>\$1,906,754</u>	<u>\$1,569,012</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2006			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	\$113,935	0.5%	100.0%
PRIT Cash Fund	50,688	0.2%	
PRIT Core Fund	<u>22,670,242</u>	<u>99.3%</u>	100.0%
Grand Total	<u><u>\$22,834,865</u></u>	<u><u>100.0%</u></u>	

For the year ending December 31, 2006, the rate of return for the investments of the Hull Retirement System was 16.49%. For the five-year period ending December 31, 2006, the rate of return for the investments of the Hull Retirement System averaged 10.11%. For the twenty-two-year period ending December 31, 2006 since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Hull Retirement System was 9.10%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Hull Retirement Board voted to move all their assets into PRIT. The result is that they have effectively rescinded all previous investment regulations.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Hull Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 106 contributory Retirement Systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal, or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 3 classes of membership in the Retirement System:

Group 1:

General employees, including clerical, administrative, technical, and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire no later than the end of month they attain age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year average salary. For veterans as defined in G.L. c. 32, § 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

- Salary is defined as gross regular compensation.
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit. Elected officials and others who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, § 10.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

NOTES TO FINANCIAL STATEMENTS (Continued)

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, § 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”.

Retirement Allowance: Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$667.92 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, § 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$312 per year, per child, payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of \$100,000.00 from the State Retirement Board.

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child, and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

NOTES TO FINANCIAL STATEMENTS (Continued)

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The total Cost-of-Living adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up") based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

NOTES TO FINANCIAL STATEMENTS (Continued)

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Hull Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

1. Effective November 5, 1996, the following rules and regulations of the Hull Contributory Retirement System relative to membership in said system shall be in effect. These regulations shall supersede any previous regulations. 2. For the purpose of these regulations full-time employment shall be defined as 35 hours per week (or 1820 hours yearly) for administrative, clerical employees; 40 hours per week for custodians, laborers and hourly rated employees; 42 hours per week for uniformed members of the fire department and four consecutive eight hour days on duty followed by two consecutive days off duty for uniformed employees of the police department.
2. If a full time employee who is a member in service of the Hull Contributory Retirement System on November 5, 1996 and becomes a part time employee at any time after November 5, 1996 said employee shall remain an active member of the system.
3. General provisions governing creditable service for any period or part time, provisional, temporary, temporary provisional, seasonal or intermittent employment or service prior to any individual's eligibility for membership in the Hull Contributory Retirement System (the System). Except as expressly provided by these regulations, no individual in the employment or service of the Town of Hull (the Town) shall be eligible to be credited with creditable service for any period of part time, provisional, temporary, temporary provisional, seasonal or intermittent (hereinafter, collectively, part time) employment or service prior to any individual's eligibility to become a member of the System (or the reinstatement of such eligibility).
4. Eligibility. Except pursuant to these regulations promulgated by the Hull Contributory Retirement Board (the Board) under G.L. c. 32, § 4(2)(c), no member of the System shall be eligible to be credited with creditable service for any period of part time employment or service in the System prior to said member's eligibility to become a member of the System (or the reinstatement of such eligibility).

For the purpose of these regulations, a part time employee of the Town who is eligible for creditable service for any period of part time employment or service in the System prior to said employee's eligibility to become a member of the System (or the reinstatement of such eligibility) shall be deemed an eligible part time employee pursuant to this section.

NOTES TO FINANCIAL STATEMENTS (Continued)

5. Permanent part time employees employed as of November 5, 1996 but hired prior to November 5, 1996 and currently working 20 hours or more per week must elect to join the System upon completion of any probationary period as of November 5, 1996.
6. Relationship to Massachusetts General Laws Chapter 32. An eligible part time employee who, in accordance with these regulations, receives credit for creditable service for employment or service rendered prior to said member's eligibility to become a member of the System (or the reinstatement of such eligibility) shall be subject to any and all provisions of G.L. c. 32.
7. Administration. The credit for creditable service for employment or service for any period of part time employment or service in the System by an eligible employee who in accordance with these regulations, receives credit for creditable service for employment or service for any period of part time service or employment in the System prior to said member's eligibility to become a member of the System (or the reinstatement of such eligibility) shall be administered by the Board, which Board shall also have the authority to promulgate further regulations to implement the provisions of these regulations.
8. Interpretation. For the purposes of these regulations, words shall have the same meanings as defined in G.L. c. 32, unless otherwise expressly provided herein or unless the context clearly requires otherwise.
9. Effective date. These regulations shall become effective upon the approval of these regulations by the Public Employee Retirement Administration Commission pursuant to G.L. c. 7, § 50.

January 16, 2003

The Board has adopted Travel Supplemental Regulations under the provisions of M.G.L. c. 7, § 50 and M.G.L. c. 32, § 21(4). (Regulation available upon written request)

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the Town Accountant who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: Marcia D. Bohinc

Appointed Member: Rocky Tenaglia Term Expires: indefinite

Elected Member: Maurice Murphy Term Expires: 12/30/08

Elected Member: Leonard Colten Term Expires: 12/30/08

Appointed Member: Gerald Ball **Term Expires:** 1/7/09

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	
Ex-officio Member:)	\$1,000,000 Employee Dishonesty
Elected Member:)	Travelers Insurance Company
Appointed Member:)	
Staff Employee:)	

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Stone Consulting, Inc. as of January 1, 2006.

The actuarial liability for active members was	\$20,019,650
The actuarial liability for retired and inactive members was	<u>24,686,705</u>
The total actuarial liability was	44,706,355
System assets as of that date were	<u>19,172,836</u>
 The unfunded actuarial liability was	 <u>\$25,533,519</u>
The ratio of system's assets to total actuarial liability was	42.9%
As of that date the total covered employee payroll was	\$8,178,297

The normal cost for employees on that date was 8.70% of payroll

The normal cost for the employer was 5.50% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 7.75% per annum
Rate of Salary Increase: 4.75% per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2006

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2006	\$19,172,836	\$44,706,355	\$25,533,519	42.9%	\$8,178,297	312.2%
1/1/2004	\$14,277,919	\$40,533,037	\$26,255,118	35.2%	\$7,447,422	352.5%
1/1/2003	\$11,486,319	\$37,253,696	\$25,767,377	30.8%	\$7,077,149	364.1%
1/1/2002	\$12,729,389	\$34,486,289	\$21,756,900	36.9%	\$6,562,000	331.6%
1/1/2000	\$13,245,563	\$30,031,489	\$16,785,926	44.1%	\$5,662,000	296.5%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Retirement in Past Years										
Superannuation	6	1	4	2	7	5	5	5	4	7
Ordinary Disability	0	0	0	0	0	0	0	0	0	1
Accidental Disability	1	0	2	0	1	2	0	1	0	1
Total Retirements	7	1	6	2	8	7	5	6	4	9
Total Retirees, Beneficiaries and Survivors	131	134	137	135	136	131	132	129	100	135
Total Active Members	156	159	167	160	170	166	169	179	212	214
Pension Payments										
Superannuation	\$787,882	\$841,743	\$901,227	\$828,543	\$897,857	\$1,057,531	\$1,124,887	\$1,240,203	\$1,320,003	\$1,502,367
Survivor/Beneficiary Payments	24,370	27,986	30,784	51,814	46,487	43,067	42,806	50,475	39,012	40,958
Ordinary Disability	38,366	30,557	31,778	24,301	25,045	28,134	18,262	9,552	9,450	55,895
Accidental Disability	507,229	468,400	489,974	477,382	540,369	596,096	624,407	624,280	652,777	719,068
Other	129,419	114,688	108,964	176,802	160,313	163,215	162,380	293,419	327,483	265,373
Total Payments for Year	<u>\$1,487,266</u>	<u>\$1,483,374</u>	<u>\$1,562,727</u>	<u>\$1,558,842</u>	<u>\$1,670,071</u>	<u>\$1,888,043</u>	<u>\$1,972,742</u>	<u>\$2,217,929</u>	<u>\$2,348,725</u>	<u>\$2,583,661</u>

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